AMERICAN MINING CONGRESS
FOUNDED 1897
SUITE 300
1920 N STREET NW
WASHINGTON
DC 20036
202/861•2800
TWX 710•822•0126

June 16, 1982

The Honorable William J. Casey
Director
Central Intelligence Agency
Washington, D.C. 20505

Dear Mr. Director:

The enclosed report, documenting the plight of the U.S. nonferrous smelting industry, shows that a multiplicity of U.S. policies has put the industry at "a significant competitive disadvantage." This study concludes that unless a considerable effort is made to improve its position, the industry will not remain competitively viable.

The report entitled "The International Competitiveness of the U.S. Nonferrous Smelting Industry and the Clean Air Act" summarizes the results of an eight-month study sponsored by 10 major copper, lead, and zinc producing members of the American Mining Congress.

The report demonstrates the importance of considering a viable and competitive nonferrous smelting and refining industry as a component of a national minerals policy. Without the capability to process nonferrous minerals into usable refined metals domestically, the national objective of maximizing our nation's self-sufficiency position in such minerals as copper, lead, zinc, and their important by-products will have minimal utility. Indeed, the report's findings indicate an alarming trend of increased exports of U.S. mine production in nonferrous minerals for processing abroad -- largely as a consequence of U.S. government policies rather than of comparative economic conditions.

The report documents the urgent need for a comprehensive treatment of government policies and programs impacting upon this vital and strategic sector of the economy. The need for relief from burdensome government regulations is made even more urgent by the currently depressed state of the minerals and metals industry. Yet, despite considerable attention to minerals policy issues in both the Administration and the Congress, the nonferrous smelting and refining industry continues to face important challenges in

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costly regulatory programs affecting the very existence of future smelting and refining capacity. Two current examples include EPA's consideration of a short-term sulfur dioxide standard, which the industry estimates could cost in excess of $850 million in capital costs, nearly as much as the copper industry spent for all environmental controls during the entire decade of the 1970s, and proposed changes to the tax laws, including repeal of safe harbor leasing and the alternative minimum tax proposal, which would uniquely hurt the mining and metals processing industry.

The report documents the reduction in U.S. zinc mining capacity, which has declined from 30% of the free-world production to 8%. The number of zinc smelters has declined from 18 in 1965 to 5.

The United States is the world's largest refiner and consumer of lead. Yet the report concludes that the lead industry is troubled by low and variable profits, capital formation problems and increasing ratios of debt to equity. In addition, severe competition from lower costs and protected foreign smelters is attracting large tonnages of scrap out of the U.S. market.

The U.S. is also the world's largest producer and consumer of copper. Yet this industry has also been faced with low and variable profits, sharply increasing costs, increasing ratios of debt to equity and the closure of unprofitable mines and smelters.

The study shows that the industry has been severely affected by environmental control capital costs. These costs have averaged 18% of total capital expenditures, a figure more than three times higher than for all other businesses. Since 1970 the copper smelting industry has had to spend $1.5 - $2 billion for environmental controls to meet Clean Air Act requirements. Changes in the Clean Air Act are critical.

We would welcome any opportunity you might provide us to be of further assistance on this matter.

Sincerely,

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President

Enclosure